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DOE FOR GWARD AND LEINSTEIN

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SUBJECT: SCENESETTER FOR AUGUST 7-9 VISIT OF ACTING DEPUTY  
SECRETARY OF ENERGY JEFFREY KUPFER

¶1. (SBU) Summary: Amid strong economic growth, pro-investment policies, improved security, and targeted U.S. assistance, Colombia finds itself safer, economically stronger, better governed, and more democratic than it has been in decades. Foreign direct investment and trade, led by the energy sector, reached historic records in 2007 and have helped reduce poverty by 20 percent since 2002, lower unemployment by 25 percent, and raise government revenues to achieve its social and democratic security goals. While the captures or kills of key leaders of the Revolutionary Armed Forces of Colombia (FARC), the July 2 rescue of 15 hostages held by the FARC including three Americans, and rising desertions have weakened Colombia's largest terrorist group, the conflict continues to threaten further advances on human rights, security, and poverty reduction. The Uribe Administration places top priority on concluding the U.S.-Colombia Trade Promotion Agreement (CTPA) and promoting investment in traditional sectors, as well as new areas such as biofuels, as a means of the generating employment necessary to address Colombia's social and security challenges. End Summary.

#### Energy Sector

¶2. (SBU) Colombia's energy and mining sectors comprise over seven percent of the economy. Energy exports are concentrated in oil and coal, with the U.S. ranking as the largest recipient of exports and investor in the sector. Investment in Colombia's oil and gas sector continues to grow as a result of pro-market policies, expanding security, and the successful private capitalization of state-owned Ecopetrol. As a result, Colombia has reversed its long decline in oil production and extended its status as a net oil exporter through at least 2015. While few experts expect Colombia to uncover a globally significant find, local producers believe Colombia still holds profitable plays in natural gas offshore, heavy oil near the Venezuelan frontier, and micro-fields of lighter-grade oil in the interior. The GOC is in the process of auctioning off new exploration blocks in the Llanos Basin and offshore. U.S. majors ExxonMobil, Chevron, and Occidental have long histories of investment in Colombia in both upstream and downstream oil and gas.

¶3. (SBU) Colombia ranks as the world's fifth largest coal exporter and derives a majority of its electrical generation from hydroelectric plants. Colombia looks to increase coal production nearly 65 percent over the next three years and recently issued contracts to build six new hydro facilities by 2016. Rich coal deposits in Guajira and Cesar Departments

as well as attractive prospects for developing nearby natural gas deposits augur well for coal producers like U.S.-based Drummond, Colombia's second-largest producer. Similarly, Colombia hopes to eventually export excess hydroelectric generation to Ecuador and Brazil. The most significant challenges to both industries center on limited public infrastructure and environmental compliance.

#### ANDI Conference

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¶4. (SBU) The National Association of Industries (ANDI) represents Colombia's most powerful private sector group, with branches in ten departments representing 21 sectors of the economy. ANDI is headed by former governor, senator and vice foreign minister Luis Carlos Villegas. ANDI's annual meeting, which you are addressing, brings together Colombia's most prominent private sector leaders, and will feature speeches by President Uribe, Minister of Defense Santos, and other members of the Cabinet. ANDI has been influential in promoting the U.S.-Colombia Trade Promotion Agreement and investment climate reforms in Colombia. ANDI has also partnered with USAID on trade capacity building activities.

#### Visit to Drummond

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¶5. (SBU) Birmingham, Alabama-based Drummond is the second largest coal exporter in Colombia. The company began working in Colombia in 1987 and exported over 25 million tons of coal

in 2007, roughly one-third of national production. Over 55 percent of Drummond's exports go to the U.S. with the remainder to Europe. The company's contract runs through ¶2021. Drummond plans to double coal production to 50 million tons by 2010 as well as significantly expand its production of natural gas. Drummond employs 6,700 people in Colombia and has paid over USD 700 million in royalties and taxes since 1995. The company resolved a strike with its workers on July 22. The company is a regular flashpoint for NGOs who allege human rights violations, mostly based upon past incidents. The company was absolved in a 2007 U.S. District Court case in Alabama of charges that it was responsible for the murder of labor leaders near their mine in 2001. Drummond reports that it is making progress with the GOC over a new requirement for direct-loading of all coal exports at ocean ports by July 1, 2010, and an environmental license for a new mine adjacent to their La Loma facility.

#### Biofuels

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¶6. (SBU) The GOC seeks to develop a robust biofuels industry based on sugar-cane ethanol and palm oil biodiesel to promote rural employment and alternatives to coca production. Colombia's sugar growers are the most efficient in the world, as a result of a 12-month harvest season (versus 10 months in Brazil and 2 months in Argentina) and well-developed irrigation methods. They currently dedicate 10 percent of their harvest to ethanol production at five distilleries. However, sugar production in the prime growing region (Cauca Valley) now operates at full capacity with little additional land for cultivation. Moreover, growers have proven hesitant to divert a larger percentage of their production away from the more lucrative refined sugar market. As a result, growth in the Colombian ethanol industry depends largely on developing other feedstocks such as sugar beet and yucca production. At the same time, Colombia ranks as the world's fifth largest palm oil producer, which has become a principal feedstock for biodiesel due to its cost-effectiveness (seeds harvested year-round for 25 years), productivity (nine times the oil produced by soybeans) and energy efficiency (twice as much energy per unit as soy).

¶7. (SBU) Much of the growth of Colombia's biofuels industry stems from GOC incentives since 2001 to promote biofuels development, including a value-added tax exemption, tax

exemptions for production facilities, free trade zones, price bands, and aggressive blending mandates. The ethanol mandate originated in large cities in 2005 to reduce car emissions and will rise to 20 percent nationwide by 2015. In 2007 the GOC issued a decree raising the nation-wide biodiesel blending mandate from five percent in 2008 to 10 percent in 2010 and 20 percent by 2012. Colombia currently is not an exporter of biofuels, but the GOC would eventually like to export to Europe and the U.S. The Andean Trade Preferences Act (ATPA) provides Colombian biofuels duty free access to the U.S., which the pending CTPA would make permanent.

#### CTPA Solidifies Investment, Employment, and Security

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18. (U) President Uribe's democratic security policy and free market economic reforms have spurred the economy. GDP growth reached 8.2 percent in 2007 after averaging more than five percent annually since 2003. The economy is decelerating this year, with recent growth slowing to just over four percent. The United States remains Colombia's largest trade partner (approximately 37 percent of exports and 26 percent of imports), though Colombia could shift to greater agricultural imports from Canada, which concluded free trade negotiations in June 2008, and the European Union when free trade negotiations with them conclude in 2009. In 2007, the United States exported some USD 1.2 billion in agricultural products to Colombia. Nearly 93 percent of Colombia's exports already receive duty-free access to the U.S. under the ATPA, which expires December 31, 2008, while U.S. exports to Colombia face an average tariff of 12 percent. Investors from around the world have boosted investment in Colombia in anticipation of the CTPA. In 2007, Foreign Direct Investment (FDI) exceeded USD 7.5 billion, 350 percent greater than FDI in 2002.

19. (SBU) The Colombian Congress ratified the CTPA in 2007 by a substantial margin, and it remains the Colombian government's highest economic priority. The Colombian Supreme Court ruled in favor of its constitutionality in July 2008, completing the GOC approval process. U.S. rejection of the accord would deal a political and economic blow to Uribe and his policy of strengthened ties with the United States. Analysts estimate the agreement would add between one and two percent annual GDP growth to the local economy. This growth would add the new jobs in the formal sector that President Uribe needs to meet his goal of cutting the poverty rate from 45 percent to 35 percent by 2010. Trade-based formal sector growth will also provide the GOC with additional fiscal resources to shoulder a larger portion of its security costs as USG Plan Colombia support falls.

#### Democratic Security

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110. (U) The establishment of greater Colombian government territorial control and the paramilitary demobilization have created the space for civil society and political parties to operate more openly than ever before. The GOC maintains a police presence in all 1099 municipalities for the first time in history. Increased security of roads and highways have allowed for greater freedom of movement for people and commerce. Murders fell from over 29,000 in 2002 to less than 17,000 in 2007, and kidnappings fell from over 2,800 a year to less than 600 during the same period. Local elections in October 2007 reflected the improved security with over 86,000 candidates participating.

#### Labor Violence

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111. (U) In addition to gains stemming from its democratic security policy, the GOC has taken specific steps to protect labor leaders and other vulnerable individuals. In 2008, the Ministry of Interior and Justice's \$44 million Protection Program helped protect more than 9,444 human rights activists, journalists, politicians, and other threatened individuals, including 1,959 trade unionists. Since 2002,

labor union data shows that murders of unionists for political reasons or common crime have fallen more than 79 percent. The murder rate for unionists is now lower than that for the general population. A resident International Labor Organization (ILO) representative arrived in Colombia in January 2007 to help implement the tripartite agreement committing the GOC to provide \$4 million to finance the ILO Special Technical Cooperation program and to provide \$1.5 million a year to the Prosecutor General's Office. The Prosecutor General operates as an independent agency responsible for prosecuting cases of violence against trade unionists. Since 2001, the Prosecutor General has prosecuted 94 cases of labor violence, leading to 188 convictions. The sub-unit on labor crimes - which began operations in November 2006 - resolved 50 cases, leading to the conviction of 90 individuals.

#### U.S. Hostages

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¶12. (SBU) An audacious Colombian military operation rescued the three U.S. contractors and twelve Colombians held by the FARC on July 2. The three Americans were captured by the FARC in February 2003, and were the longest held U.S. hostages in the world at the time of their rescue. The GOC worked closely with us on hostage issues, and U.S. training of Colombian military personnel contributed to the operation's success. The FARC continues to hold hundreds of hostages. The FARC is believed to continue to hold a U.S. citizen who was kidnapped in Panama in April 2008, and perhaps a Colombian-American dual national kidnapped in 2003, though it has never provided proof of life.

#### U.S. Assistance

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¶13. (SBU) In January 2007, the GOC presented a Plan Colombia "consolidation strategy" pledging a Colombian investment of \$78 billion through 2013. The proposal emphasizes the importance of building social cohesion, and allocates

substantial resources to help strengthen local governance, protect human rights, and assist displaced people, Afro-Colombians, and indigenous communities. It also aims to reintegrate more than 48,000 demobilized ex-fighters and deserters and to promote Colombia's licit exports. The GOC seeks funding from the United States and European countries to complement its own resources.

¶14. (SBU) Under Plan Colombia, the USG has provided more than USD 5.5 billion in assistance, including USD 950 million in economic and social assistance. USG security assistance combats drug trafficking and terrorism through training, equipment, and technical assistance. It supports Colombian military aviation, essential for all programs - civilian or military - outside Colombia's major cities. U.S. social and economic aid focuses on alternative development, displaced and other vulnerable communities, human rights and democratic institutions, and reintegration of demobilized fighters. Congress increased economic and social assistance from USD 140 million in FY 07 to USD 215 million in FY 08, while security assistance was reduced in FY 08.

#### Drug Eradication and Interdiction

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¶15. (SBU) Eradication of coca and poppy crops and interdiction of cocaine and heroin reached near-record levels in 2007. President Uribe supports greater manual eradication, but recognizes that continued aerial eradication is also key. He seeks a complementary approach using both methods. In 2008, the national police and military forces have set a brisk pace for cocaine, coca base and marijuana seizures, and are over half way to record-level seizure totals. We continue to work with the Colombian government to maximize our scarce resources to achieve the eradication and interdiction targets as well as a productive dialogue on how best to transfer key tasks from the USG to the GOC.

## Extradition

¶16. (SBU) Since taking office, President Uribe has approved over 750 extraditions to the United States, including a record number of 164 in 2007. The Colombian Government is on pace to break that record, having already extradited 119 criminals to the United States in 2008, including 15 former paramilitary leaders.

## Demobilization and Peace Process

¶17. (SBU) Over 32,000 former paramilitaries have demobilized since 2002, and a further 16,000 have deserted from other illegal armed groups (about one-half from the FARC). The Organization of American States estimates there are 30 emerging criminal groups with a combined membership of over 3000 persons. Reintegration programs and targeted law enforcement are working to counter these groups. Under the Justice and Peace Law (JPL) process, many former paramilitary leaders have confessed their participation in violent crimes. To date, the JPL process has revealed the location of the graves of almost 1,200 paramilitary victims and provided information on 3,600 crimes. Almost 100,000 victims have registered under the JPL, with the GOC working on measures to accelerate the payment of reparations. The Supreme Court and the Prosecutor--with GOC support--continue to investigate politicians with alleged paramilitary ties. Fifty-two Congressmen, 19 mayors, and 11 governors have been implicated in the scandal.

¶18. (SBU) The National Liberation Army (ELN) has negotiated with the Colombian government for over two years on a cease-fire agreement, but ELN infighting and FARC pressure have prevented a deal. The ELN kidnap civilians to fund its operations, but its military capability is declining. The FARC has rebuffed GOC initiatives to engage in any meaningful peace talks.

## Regional Relations

¶19. (SBU) Colombia's commitment to free markets, democracy, and close relations with the United States are an exception to trends in region. Following Colombia's March 1 air-strike killing FARC senior leader Raul Reyes across the border in Ecuador, Venezuela joined Ecuador in breaking relations and deployed military forces to its border. Venezuela called off the buildup after reaching agreement with Colombia on March 7 to reduce tensions and reestablish commercial and diplomatic ties. Computers found in Raul Reyes' camp have information that implicates Venezuelan and Ecuadorian government officials in providing support to the FARC, as well as a wider than thought international support network for the terrorist group. After months of strained relations, President Uribe and President Chavez met on July 11 and affirmed their commitment to improve ties, but tensions remain over Venezuela's ambiguous relations with the FARC. Ecuador and Colombia are yet to restore relations. Colombia and Nicaragua maintain strained relations over the sovereignty of Caribbean islands San Andres and Providencia, and recent accusations that President Ortega has hosted FARC rebels.

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